

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		X		
20					
21					
22					
SUSPENSE		Date			

Remarks

STAT

3637 (10-81)

10 Dec 84
Date

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 12/10/84 Number: 169101CA Due By: _____

Subject: Cabinet Council on Economic Affairs Planning Meeting: December 11

8:45 A.M. - Roosevelt Room

TOPIC: Tax Simplification

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Svahn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Chapman	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
<u>CIA</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Executive Secretary for:		
UN	<input type="checkbox"/>	<input type="checkbox"/>	CCCT	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
			CCFA	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>			
SBA	<input type="checkbox"/>	<input type="checkbox"/>			

REMARKS:

There will be a Cabinet Council on Economic Affairs Planning Meeting on Tuesday, December 11, 1984, at 8:45 A.M. in the Roosevelt Room.

The agenda and background paper are attached.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823 (White House)

☐ Don Clarey ☒ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs
456-2800 (Room 120, 2500)

THE WHITE HOUSE

WASHINGTON

December 10, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*
SUBJECT: Agenda and Papers for the December 11 Meeting

The Cabinet Council on Economic Affairs will meet on Tuesday, December 11, 1984, at 8:45 a.m. in the Roosevelt Room.

The meeting will be devoted to a continuation of the discussion of the Treasury Tax Simplification and Reform Proposal. Summaries of the proposal were distributed to members on December 5. No additional papers will be circulated in advance of the meeting.

At the Cabinet Council meeting on November 15, we briefly reviewed the studies of Federal-State-local fiscal relations mandated by the Congress in the 1983 legislation reauthorizing the Revenue Sharing Program. One of the issues that was discussed at that time was the Treasury projections of the fiscal outlook for State and local governments. A brief memorandum from Assistant Secretary of the Treasury Tom Healey on this subject is attached for your information.

Attachment

THE WHITE HOUSE
WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

December 11, 1984

8:45 a.m.

Roosevelt Room

AGENDA

1. Review of Treasury Tax Simplification and Reform Proposal (CM # 507)



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

November 29, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Thomas J. Healey *TH*

SUBJECT: Treasury Projections of the Fiscal Outlook for State and Local Governments

At the meeting of the CCEA on November 15, I provided a briefing on the studies of Federal-State-local fiscal relations the Treasury is directed to perform by the 1983 legislation reauthorizing the Revenue Sharing Program.

I mentioned the controversy that has been prompted by rumors about our projections of the fiscal outlook for State-local governments to 1989. I also noted that we were--at that time--projecting that, on a current-services basis with the Administration's Mid-Session economic forecast, the other-funds surplus of the State-local sector in the national income accounts would be \$65 billion in 1989 (compared with \$6.6 billion in 1983). We have since revised the projections and replicated them for the high- and low-growth economic forecasts outlined in the Mid-Session Review. The projected surplus in 1989 is now \$86.5 billion for the Administration's economic forecast, more than 11 percent of the total revenues of State-local governments in 1989 under the same projection.

On November 28th, a working paper discussing the projections was distributed to the 22 organizations of State-local officials that are members of our Advisory Group on the Studies. It is also being made available to anyone who requests a copy. The remainder of this memorandum provides a general summary of the working paper, "Recent Trends in State-Local Finances and the Long-Term Outlook for the Sector."

The paper discusses recent trends in the finances of State and local governments, and presents projections to 1989 of the current-services outlook for the State-local sector in the national income and product accounts.

Nearly three decades of extraordinarily rapid growth--fueled by tax increases that boosted the sector's claim on personal income from 8 percent in 1950 to 15 percent in 1977, and by Federal grants that soared from 11 percent of State-local receipts in 1950 to 23 percent by the mid-Seventies--came to an abrupt end in 1978.

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During the past five years, State-local governments have been navigating fiscal seas more turbulent than any since the early years of the Great Depression. The Tax Revolt exacted reductions in State and local taxes of more than 13 percent during its four-year course, 1978-81. Adjusted for inflation, Federal grants plunged nearly 25 percent between 1978 and 1983. The recessions of 1980-82 subjected State governments, in particular (because their revenues tend to respond more-than proportionately to economic developments), to yet another round of intense pressures. The States responded in part with tax increases, many of them temporary, equivalent to nearly half the cuts effected by the Tax Revolt.

Through it all, fiscal austerity was the order of the day. After almost three decades of growth in real expenditures at an annual rate of more than 4 percent, the real outlays of State and local government per capita have now been declining for five consecutive years.

The three economic forecasts published in the Mid-Session Review of the 1985 Budget (the Mid-Session, high-growth, and low-growth options) define economic contexts for the current-services projections. The projections of receipts assume the Mid-Session forecast of Federal grants-in-aid, and that the revenue system of the State-local sector at the end of 1983 is not modified. The expenditure projections assume that the level of real per capita outlays by State and local governments in 1983 is sustained through 1989. The other-funds surplus or deficit is the bottom-line indicator of overall fiscal condition. This measure excludes the large surplus in State and local social insurance funds because the revenues in such funds are not available for current operations.

Base projections corresponding to the three economic outlooks are presented for 1984-89. The projected other-funds positions of the sector in 1989 range from a surplus of \$30 billion in the low-growth case to a surplus of \$130 billion in the high-growth case.

The dynamics of State-local budgetary processes guarantee that other-funds surpluses of these magnitudes would never actually be realized. Given that other-funds surpluses are projected, the fiscal options for the sector include accelerated expenditure growth, tax cuts, accumulation of balances, or some combination thereof.

Therefore, the paper explores a number of such options. They include a return of real per capita outlays to their peak in 1978 and two courses that might materialize if the Tax Revolt were to revive. With the expenditure-growth option, State-local outlays adjusted for inflation would rise at a rate slightly in excess of 2 percent per year. Assuming no changes in the revenue system of the sector, this more-rapid expenditure growth would reduce the other-funds surpluses to \$44 billion and \$88 billion by 1989 under the Mid-Session and high-growth economic forecasts. With the low-growth forecast, on the other hand, a deficit of \$16 billion is projected--tax increases would be required.

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Two options exploring the consequences of a revival of the Tax Revolt are considered, on the assumption that expenditures remain at their 1983 current-services level through 1989. The first assumes that the substantial tax increases enacted in 1982 and 1983 are rolled back, and that State-local taxes in 1989 claim the same share of personal income as in 1981--10.5 percent. Under the Mid-Session economic assumptions, the other-funds surplus would be reduced to \$62 billion in 1989. Under the high- and low-growth forecasts, the other-funds surplus would drop to \$101 billion and \$5 billion, respectively.

A more-drastic assumption about a revived Tax Revolt--that the rate of decline in the claim of State-local taxes on personal income in the years 1978-81 is reasserted during the projection period--is also explored. In this case, the sector's tax-income ratio would plunge from 10.9 percent of personal income in 1983 to less than 9 percent in 1989. This would be the equivalent of rolling back State-local taxes to their level in 1960. Under the Mid-Session and low-growth forecasts, other-funds deficits of \$6 billion and \$62 billion would result in 1989. With high economic growth, however, a \$29-billion surplus would remain.

This paper is, in a sense, a progress report on the analysis of the fiscal outlook for State and local governments that the Treasury Department is directed to perform by the 1983 amendments to the Revenue Sharing Act. The methods and results are subject to modification and revision as the analytical and review process proceeds, and as new and more accurate data become available. The paper projects the current-services outlook for the entire State-local sector. The projections should not be interpreted as implying that any particular State, group of States, or local government would behave like the sector as a whole.